- Bankers' Roundtable: Lenders view the risks
- M/A-COM to supply HBO's scrambling devices
- Oak reorganizes to keep costs in check
- ESPN gradually to boost affiliate payments

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The news and features weekly of the cable television industry January 31, 1983 $3.00

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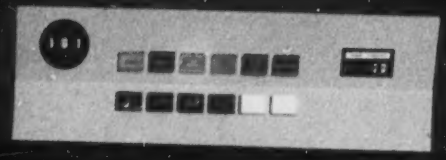

GILLILAND'S CHALLENGE: the systems side of cable

PLUS American MSOs overseas

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CableVision January 31, 1983. Volume 8, Number 21

Between the lines/5
CableScope/9
Newswire/10
Update/13
Leading the week/15
Programming/27
CableVision Plus/31
Advertising/55
Business/57
Government & law/69
People/70
Events/71
Classifieds/72
Advertisers' index/75
From Washington/76
Cable stats/79
Parting words/82

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Warner buys into Pirates

Warner Communications agreed to buy 48 percent of the Pittsburgh Pirates. The deal could increase the number of Pirates games on Warner's Pittsburgh system. **Leading the week, pages 15-20.**

Betamax goes to D.C.

U.S. Supreme Court justices listened to arguments from attorneys for Sony, Universal Studios and Walt Disney to determine whether home videocassette recorders across the U.S. are in violation of federal copyright law. **Leading the week, pages 15-20.**

Oak cuts losses

Oak Industries reassigned senior-level management officials and laid off 30 of its 13,000 employees in an attempt to curb declining profits. **Leading the week, pages 15-20.**

Doomsday watch

United Video declares March 15, the day higher copyright royalty rates take effect, as a doomsday for distant signals. **Leading the week, pages 15-20.**

Disney on TCI

Tele-Communications Inc., the nation's largest MSO, will carry The Disney Channel on 174 of its systems when the pay service launches in April. **Leading the week, pages 15-20.**

Big show down in Texas

Exhibitors will number 193 at the 23rd Annual Texas Cable TV and Trade Show Feb. 2-4 in San Antonio, an exhibitor- and operator-oriented event that last year attracted 187 exhibitors. **Leading the week, pages 15-20.**

ESPN ups carriage payment

Entertainment and Sports Programming Network, which recently abandoned network compensation to affiliates as a means to improve an ailing short-term bottom line, announced an increase in its carriage payment system. Initially, most of its 5,052 affiliates won't be affected. **Leading the week, pages 15-20.**

Bridging the Pacific

TeleJapan's *Beyond The Horizon*, to debut Feb. 6 on CBN Cable Network, is a two-hour look at Japanese culture and lifestyles for wary, curious U.S. viewers. **Page 27.**

Why cable reps are smiling

Local cable advertising in 1982 totaled $35 million, or 16 percent of the year's $218 million in total cable ad expenditures. National spot cable—sale of local availabilities on satellite networks to national advertisers—totaled $7 million. **Page 55.**

Bankers' roundtable

CableVision moderates a roundtable discussion of cable's short- and long-term prospects among four major cable lenders—Bankers Trust, Chemical Bank, National Bank of North America and First National Bank of Boston. **Page 57.**

Miami obscenity ordinance

With little fanfare and no opposition from the local cable operator, the Miami City Council outlawed "obscene or indecent material" on cable. The prohibition, to be effective Feb. 12, is expected to be challenged in light of a recent Utah court's decision declaring a comparable ordinance unconstitutional. **Page 69.**

About the cover

Gill Management Services, guided by William Cavanaugh, Dick LaPorte and Allen Gilliland III, will challenge 19-year-old CableData in cable services. Photo by Randy Olson.

This week in PLUS

Meet the people at Gill Management Services, the latest in a line of innovative endeavors spawned by the Gilliland family of San Jose, Calif. Al Gilliland Sr. set the pace with a successful bakery business and pioneer broadcasting station. His son built one of the cable industry's leading systems. Now Allen Gilliland III is one of the three principles in GMS, a computerized record-keeping service for cable operators. . . Overseas is the new frontier for MSOs seeking uncabled turf. And for programmers, the Europeans constitute a hungry audience. . . The establishment press and electronic media: a profitable partnership or merely wishful thinking? The American Newspaper Publishers Association is looking for answers. **Pages 31-54.**

Foreign relations

The Old World is new territory for cable—and American MSOs are wasting no time exploring the possibilities

By Gary Rothbart

If Horace Greeley were a cable television consultant alive today, he would tell his American MSO clients: "Go overseas, young man!"

The rest of the world—particularly Western Europe—is discovering the possibilities for cable television. The trend may open the door for great expansion possibilities for American companies with the operating experience foreign firms lack.

Cox Cable Communications and Tele-Communications Inc. have already taken the plunge while others are sticking their toes in the water.

"By 1990, the majority of cable television subscribers will live outside the United States," predicted Craig Startt, vice president of international operations at Cox. "The industry leaders will be international, not American companies."

Startt pointed out that 20 to 30 new satellites are scheduled to be launched before the end of the decade.

"The satellite footprint knows no national boundaries," added Willard Block, president of Viacom World Wide.

Industry observers believe the next cable frontier will be Western Europe, beginning with the United Kingdom.

"It is not a question of whether cable is coming to Europe. It is a question of when or how cable is coming to Europe," said Patrick Whitten, joint managing director of Communications & Information Technology Research Ltd., a London-based market research firm that has studied the possibilities for cable television in Western Europe.

The firm makes the following predictions:

- Western European cable revenues could grow from $1.5 billion to $5 billion by the end of the decade (compared with the growth from $5 billion to $18 billion that some analysts predict for the American cable industry over the same period);
- Penetration of the area's 120

million television households could grow from 7 percent to about 25 percent by 1990;

■ Capital expenditures in Western European cable television markets could exceed $1.5 billion a year by 1988.

American cable equipment manufacturers have recognized the coming explosion in Europe for years. Oak Industries has a joint venture with Racal, Eagle Comtronics has a partnership with Siemens, and Scientific-Atlanta just announced a cooperative venture with Plessey Co., to cite just a few.

The sector of the cable industry with perhaps the greatest opportunity in Europe is programming. Time Inc. and Viacom are looking at the market.

Most European countries have only one government licensed television channel, which doesn't broadcast the entire day. Some exceptions are Austria, which has two, and Belgium and the United Kingdom, both of which have four. When multichannel broadband cable systems are built, operators will be looking for something to put on the expanded bandwidth.

"European governments are taking the position that it makes sense to put in the cable now, pay for it with entertainment programming and develop the more attractive interactive applications in the 1990s," explained Stephen Connell, CIT Research chairman.

Cautious steps

Observers say that American participation in cable projects overseas is likely to come in the form of joint ventures, not sole ownership by Americans.

"I don't think there will be too many American cable companies going overseas," predicted Viacom's Block. "It is a sensitive area. There are different government regulations, different currencies, different languages.

"It is always a little dicey. You are leaving your company in the hands of foreign nationals," Block said.

Cable operators must be familiar with—or have employees or partners who are familiar with—local politics, the state of the regional economy and cultural trends.

There are other obstacles that have to be overcome before success can be achieved. Direct broadcast satellite is a threat; it can cover nearly all of Western Europe with a single footprint. There is opposition within the government from broadcast interests, who feel threatened by multichannel capabilities of cable. A third hurdle is the prevalent practice of turning over design, construction and operations of cable systems to telephone companies and utilities. Most of the cable systems in Western Europe are small—the majority serve fewer than 50 subscribers each—and are owned by local public utilities.

'It's not a question of whether cable is coming to Europe. It's a question of when and how cable is coming to Europe.'

Patrick Whitten, joint managing director, Communications & Information Technology Research Ltd.

"Cable companies will have to devise a way of coalescing systems in order to make them commercially viable," Connell said.

"The national telephone administrations are worried that cable is a thin-ended wedge," Connell said. They fear that "if you allow cable to deliver entertainment services, then the cable industry will want to get into data services and other areas run by the telephone administration."

Cox's 8-year-old joint venture with local partners in Denmark has had favorable results, according to Startt. The partnership operates many systems totaling 80,000 subscribers.

"It is not as risky as it sounds," explained Startt. "You can quantify the risk before you get involved. You stay away from certain countries. We look for countries that have a history of financial stability and accommodating foreign investment."

For instance, the French government wants cable to develop in its country, but without foreign involvement in the creation of either programming or equipment, Whitten said.

With "not a sizeable investment," Cox has used the Danish project as an introduction to working in a foreign market and as "a sounding board for us to tune into developments in Europe," Startt said.

In the last two years, Cox has also given "active attention" to potential deals in South America, other European countries and Australia, he said.

"I think the development of cable is most imminent in the United Kingdom," Startt said. "We are close to an agreement with a consortium of nationals there and in Australia."

Great expectations

The cabling of Western Europe isn't a market-driven phenomenon, but a government-inspired development, Whitten said. And the governments are looking for state-of-the-art, multichannel, interactive and addressable cable systems.

"The international community wants 1986 systems in 1986, not 1972 systems in 1986," Startt said.

Whitten adds that Western European systems will rely more on optical fiber than copper coaxial cable and the star signal distribution configuration, rather than the tree and branch layouts that are prevalent in the United States.

Connell said Western European governments are pushing the star configurations because it is more conducive to interactive services, and optical cable because it would stimulate the region's optical fiber industry.

"It has more to do with jobs and national pride," added Alan Morris, joint managing director of CIT Research.

But the star configuration, while useful, is not inexpensive. Connell figures the cost per household of laying traditional tree and branch copper coaxial would be an average of $300. Construction of the star configuration with optical cable could cost as much as $1,600 per household, he said.

Cable growth projections: all Western Europe

	Optimistic						Pessimistic					
	1982	1984	1986	1988	1990	1992	1982	1984	1986	1988	1990	1992
Number of households (millions)	119.0	120.1	121.2	122.35	123.5	124.65	119	120.1	121.2	122.35	123.5	124.65
Percentage of households linked to cable	7	10	13	17	22	27	7	9	10	11	13	16
Percentage of households subscribing to multi-channel cable												
• Basic service		2.5	8	14	19	24			1	4	9	13
• Premium service		2	7	12	16	21			1	3	8	12
• Interactive/special applications			.5	1.5	3.5	6.5					2	3
Annual estimated capital expenditure (millions of $)		875	1415	1615	1535	1570		70	335	785	1375	1065
Annual estimated subscriber revenue (millions of $)		505	1535	2665	3610	4690		35	225	725	1795	2580
Annual estimated advertising revenue (millions of $)		65	285	600	970	1365			15	90	305	540

Source: Communications & Information Technology Research Ltd.

Financial boost

European governments look at interactive cable communications as a salvation to their lagging economies, Connell said.

"There are really two arguments here," according to the summary of the CIT Research report. "First, that the whole process of laying cable and construction, together with the provisions of electronic and other equipment, will generate major investment, which in turn will provide jobs and stimulate activity in important industrial sectors.

"Second, the benefits are seen more widely in terms of programming, encouraging new services, and in the whole field of information and education."

The governments of Western Europe are more attuned to the concept of cable being more than just television. "It should be the railways of post-industrial society," Whitten said.

Startt added, "The world will be a cable communications market, not a cable television market, as it is in the United States."

Tele-Communications Inc. has taken a different approach to the overseas market. Paul Alden, vice president of new market development at TCI, explained that while TCI was pursuing the Miami, Fla., franchise, company officials were approached by businessmen in the Dominican Republic to build a system there.

"The proposal has very intriguing densities," said Peter Barton, TCI executive assistant to the president. Alden said the system, which has the potential for 40,000 homes passed, ranges in density from 180 homes per mile to 250 homes per mile.

TCI has invested $3 million in the 50 percent ownership and its expertise in guiding local labor force in construction and operation of the 12-channel system.

So far, TCI has had to overcome obstacles in acquiring the right to use domestic satellites through the Intelsat treaty, Alden said.

TCI is also contending with a theft of signal and competition problem. While TCI has 75 miles of plant in place, another unlicensed operator has 25 miles of plant in Santo Domingo, Alden said.

"Otherwise, it is not much different than operating in Minot, North Dakota," Barton quipped.

Alden said the Dominican Republic project is part of TCI's search for new opportunities for expansion abroad. Other arrangements are in the negotiation stage in other Caribbean islands and South America.

'The satellite footprint knows no boundaries.'

Willard Block, president, Viacom World Wide

Group W Cable is another American MSO that has been approached by overseas investors in an attempt to lure Group W's experience and expertise into the foreign market. Norval Reece, Group W vice president for government affairs, said the company has received 15 to 20 inquiries in the past two years from investors in Europe, Asia, the Far East and South America.

At Viacom, top officials formed a new division, Viacom World Wide, in June with the specific task of developing and expanding Viacom's international business.

In July, Viacom World Wide formed a joint venture with Mainichi Newspapers, Sports Nippon and Tokyo Broadcasting Co. to develop teletext services.

But Viacom World Wide has struck no deals just yet in the cable television markets overseas.

"We have a verticality of experience in satellite programming and operations that many investors might find useful," Block said. "The real question is where does a company perceive its strategic interests?"

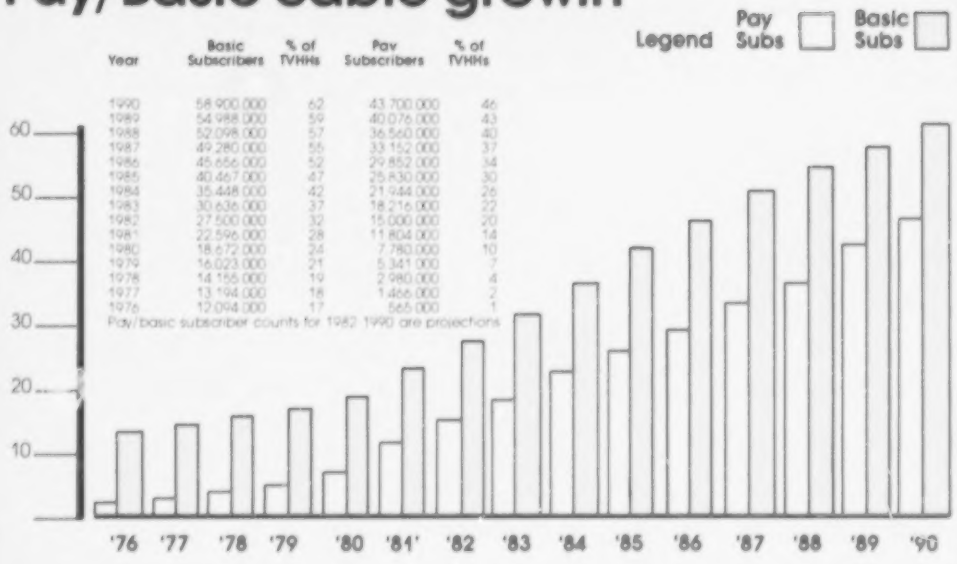
As the opportunities overseas become more focused, Viacom, Group W, TCI and Cox—as well as other leading American MSOs—are likely to be doing more hard soul-searching about their international futures.■

Cable stats

Pay/Basic cable growth

Year	Basic Subscribers	% of TVHHs	Pay Subscribers	% of TVHHs
1990	58,900,000	62	43,700,000	46
1989	54,988,000	59	40,076,000	43
1988	52,098,000	57	36,560,000	40
1987	49,280,000	56	33,152,000	37
1986	45,656,000	52	29,852,000	34
1985	40,467,000	47	25,830,000	30
1984	35,448,000	42	21,944,000	26
1983	30,636,000	37	18,216,000	22
1982	27,500,000	32	15,000,000	20
1981	22,596,000	28	11,804,000	14
1980	18,672,000	24	7,780,000	10
1979	16,023,000	21	5,341,000	7
1978	14,155,000	19	2,980,000	4
1977	13,194,000	18	1,466,000	2
1976	12,094,000	17	565,000	1

Pay/basic subscriber counts for 1982-1990 are projections



Cable barometer

Television households (TVHH) 82,100,000

Homes passed by cable (HP) . 45,310,421

Percent of TVHH passed by cable 55.2%

Basic cable subscribers .. 26,991,845

Percent of TVHH with basic cable 32.9%

Percent of HP with basic cable 59.6%

Pay cable units 14,550,000

Percent of TVHH with pay cable 17.7%

Percent of HP with pay cable 32.1%

Percent of basic subs with pay cable .. 53.9%

Figures are as of October 1982

Cable services subscriber counts

Satellite-fed basic services	Affiliates	Subscribers	% change in subs from 11/82	% change in subs from 1/82
ACSN: The Learning Channel	306	2,322,366	+8.0	+68.1
Alpha Repertory Television Service (ARTS)[1]	1,725	8,000,000	N.C.	+29.0
Black Entertainment Television (BET)	168	3,000,000	+30.0	+51.6
Cable Health Network (CHN)[2]	715	6,900,000	+48.3	+68.3
Cable News Network (CNN)	3,050	17,493,000	+5.0	+63.9
CNN Headline News	360	2,525,000	+12.4	+223.7
Cable Satellite Public Affairs Network (C-SPAN)	1,000	11,000,000	(11/82) N.A.	+4.7
CBN Cable Network	3,480	19,577,400	+5.2	+33.1
Dayfime[3]	566	7,500,000	+4.1	+78.5
Dow Jones Cable News[4]	80	850,000	+13.3	+58.8
Electronic Program Guide (EPG)[5]	75	1,109,464	+26.8	+269.8
Entertainment and Sports Programming Network (ESPN)	5,052	20,343,328	+2.7	+49.4
Eternal Word Television Network (EWTN)	54	782,543	+28.0	+160.8
Financial News Network (FNN)[6]	749	7,600,000	+11.3	N.A.
Modern Satellite Network (MSN)[7]	433	7,138,664	+5.9	+74.1
Music Television (MTV)	1,200	8,600,000	+19.4	+244.0
National Christian Network	76	1,256,241	+1.0	+319.9
National Jewish Television (NJT)	108	2,312,050	+2.4	+42.1
Nickelodeon[8]	2,160	10,000,000	+5.2	+61.2
North American Newsfime/ The Travel Channel[9]	114	876,000	(7/82) N.A.	N.C.
PTL Television Network	600	6,500,000	(10/82) N.A.	+56.7
Reuters News View[10]	308	3,500,000	-12.5	-7.8
Satellite News Channel[11]	550	5,400,000	(11/82) N.A.	+107.6
Satellite Program Network (SPN)	385	5,300,000	+1.9	+51.0
SIN Television Network[12]	199	25,531,400	(11/82) N.A.	+19.6
Trinity Broadcasting Network	235	2,300,000	(11/82) N.A.	+80.8
USA Network	3,000	15,000,000	+15.3	+57.8
The Weather Channel(TWC)[13]	711	7,125,000	+1.7	+58.3
WGN	3,739	9,535,941	-9.1	+25.3
WOR	715	4,499,234	+0.9	-2.3
WTBS	4,913	24,990,000	+3.4	+39.2
Satellite-fed basic audio services				
Lifestyle	105	1,000,000	(10/82) N.A.	+233.3
WFMT	168	912,997	-0.4	+40.6
Satellite-fed pay services				
Bravo	51	88,152	(11/82) +11.4	+87.5
Cinemax[14]	1,600	2,000,000	N.C.	+185.7
The Entertainment Channel (TEC)	50	45,500	(11/82) N.A.	N.A.
EROS[14]	18	40,000	(11/82) N.A.	+5.0
GalaVision	160	120,000	(10/82) N.A.	+30.4
Home Box Office[14]	4,400	11,000,000	N.C.	+37.5
Home Theater Network Plus (HTN)[14]	260	155,000	N.C.	+3.3
The Movie Channel (TMC)	2,350	2,300,000	N.C.	+31.4
The Playboy Channel/Escapade	209	324,760	(11/82) +41.6	+75.5
Showtime	2,000	4,000,000	N.C.	+42.8
Regional sports services				
Action Sports Network	N.A.	N.A.	N.A.	
Bay Area Interconnect	32	483,000	(11/82) N.C.	
Madison Square Garden Network	26	1,400,000	N.C.	
PRISM—Philadelphia	76	327,800	+1.6	
SportsChannel—New York	33	253,000	(11/82) N.A.	
SportsChannel—New England	N.A.	N.A.	N.A.	

Announced satellite-fed cable services	Projected launch date
ABC/ESPN Pay Service	TBA
Aimi Group Network	TBA
Apollo Entertainment Television	4th quarter 1984
The Buena Vista Channel	3rd quarter 1983
Cable Newspaper Corp.	1st quarter 1983
The Channel Black	1st quarter 1983
Christian Media Network	relaunch TBA
Cinemerica	TBA
The Community Channel	TBA
The Disney Channel	2nd quarter 1983
Family Programming Network	TBA
The Games Network	1st quarter 1983
Home Music Store	1983-84 launch
The Job Channel	TBA
Kidvid Network	3/83
Rock 24 (Lewmark Productions Music)	6/83
Magicattle	3rd quarter 1984
The Nashville Network	2/83
National Jazz Network	3/83
PBS Cable	TBA
Penthouse Entertainment Network	TBA
Satellite News Channel II	2nd quarter 1983
The Silent Network	3/83
Sitcom Channel (Channelfainment)	1st quarter 1984
SPN/International Network	2nd quarter 1984
SPN/Financial-Religious Network	2nd quarter 1984
SPN/Classic Movie Network	2nd quarter 1984
SPN/How-To Network	2nd quarter 1984
Top Entertainment Network	TBA
UTV Cable Network	2/83
The Vanguard Network	2nd quarter 1983
Video Concert Hall	TBA
Window	TBA

Affiliate and Subscriber counts are as of 1/1/83 unless otherwise indicated.
N.C. denotes no change
N.A. denotes not available
* Correction of error in last month's listing, should have read 415 affiliates and 6,735,315 subscribers as of 11/30/82
[1] Combined with Nickelodeon during 12/82 count
[2] Percent change calculated as of 4/82, earliest subscriber count available
[3] Percent change calculated as of 6/82, earliest subscriber count available
[4] Percent change calculated as of 6/82, earliest subscriber count available
[5] Percent change calculated as of 7/82, earliest subscriber count available
[6] Subscriber counts denote households receiving signal
[7] Combined with AIMS during 12/82 count
[8] Percent change calculated as of 6/82, earliest subscriber count available
[9] Percent change calculated as of 6/82, earliest subscriber count available
[10] Percent change calculated as of 6/82, earliest subscriber count available
[11] Total SIN reach: Total Spanish-speaking households: 3,750,000
[12] Percent change calculated as of 5/82, earliest subscriber count available
[13] These figures are company approximations
[14] Percent change calculated as of 6/82, earliest subscriber count available
[15] Listed last year as Home Theater Network.

NOTE

ONLY THE FOLLOWING PAGES OF THIS

PUBLICATION HAVE BEEN FILMED

Cover 1, p.4, 49, 73, 76,

81, 98-99, 101, 103-104,

121, 123-124, 171.